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**NORTHSTAR  
RESOURCES  
LTD.**

**ANNUAL REPORT 1980**



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## The Annual Meeting

The annual general meeting of the shareholders of the Company will be held at the Calgary Petroleum Club, 319-5th Avenue S.W., Calgary, Alberta, at 3:00 p.m., May 28, 1981.



## ABOUT THE COMPANY

Northstar Resources Ltd., is a diversified Canadian owned public company with its head office in Calgary, Alberta. The Company's common shares are listed for trading on The Toronto and Alberta Stock Exchanges. Northstar is active in the oil and gas exploration and contract drilling sectors of the petroleum industry, and in addition, holds investments in other petroleum industry related companies.

Northstar commenced operations in November, 1977, and has established an enviable track record of growth since inception. Initially, a strong Canadian exploration team was assembled and, in 1978, during the Company's first full year of operations, a total of 21 wells were drilled. In 1979, Northstar undertook its first public share offering attracting approximately 1,200 shareholders, raised close to \$6 million through its first public drilling fund, and completed its first acquisition which involved approximately \$5 million of producing and undeveloped Canadian oil and gas properties.

In 1980, the Company commenced a major shift of its exploration emphasis into the United States and has recently completed the merger of its wholly owned Texas subsidiary, Northstar Resources, Inc., with Allegro Petroleum Inc., a private Houston based oil and gas exploration company. The new subsidiary is involved in the development of a major exploration program through a team of 15 geologists actively generating prospects in a number of the geological basins in the United States.

Another significant development involved the recent acquisition of a controlling interest in S & T Drilling (Northern) Ltd., a private Edmonton, Alberta, based oilwell drilling contractor. S & T owns and operates 11 rigs in Canada. Discussions are currently under way to establish S & T operations in both the United States and Australia.

The S & T and Allegro acquisitions were closed subsequent to Northstar's fiscal year-end and, together, have had a tremendous impact on the size and scope of the Company's business activities. The Northstar group of companies now employs over 300 people and its total assets are in excess of \$60 million.

In order that this annual report is applicable to the current operations of the Company, much of the general information presented relates to the newly acquired companies. Of course, the financial statements and operations data are effective at the November 30 fiscal year-end of Northstar.



# TO OUR SHAREHOLDERS

On behalf of the Board of Directors I am pleased to present to you our annual report for the year-ended November 30, 1980. During the past year Northstar has emerged as a diversified resource company, involved in both the oil and gas exploration and contract drilling sectors of the petroleum industry. We are proud of our continued growth and indebted to the many loyal employees that have made the Company's rapid development possible.

## Financial Review

The Company's financial results for the year-ended November 30, 1980 showed significant increases in all categories. These results do not include the results of S & T Drilling and Allegro which were both acquired subsequent to November 30.

- Total revenues increased in 1980 by 48% to \$1,789,232. Revenues from oil and gas sales, after the deduction of royalties, increased to \$1,116,716 as several new wells were brought onto production. Management fees also continued to increase in proportion to the size of the Company's exploration program. Despite the increase in revenues, the lack of markets for shut-in gas in Canada continues to severely retard the realization of our revenue potential.
- Net earnings were \$524,510, or 8¢ per share, up sharply from the \$219,570, or 5¢ per share, reported in 1979. Total cash flow increased to \$829,243, or 12.5¢ per share, which is 152% that of 1979.
- The Company's long-term debt stood at \$5,519,772 at year-end and interest expense moved up sharply during the year due to increased borrowings and historically unprecedented interest rates. The debt load will be substantially reduced in 1981 following a proposed convertible preferred share issue.

## Corporate Developments

- Early in the year, Northstar played a major role in the development, and became the largest single shareholder, of Gane Petroleum Corporation Ltd., a public Calgary based oil and gas exploration company. Northstar currently owns 800,000 common shares of Gane, or approximately 21% of the issued shares. Gane has recently been trading on The Alberta Stock Exchange at approximately \$3.50 per share.
- Northstar became the largest shareholder in Union Gas Limited with the purchase of 1,035,000 common shares, early in 1980. The shares were subsequently sold and a profit was realized of approximately \$210,800, after all carrying costs. Under certain future circumstances, Northstar will realize an additional gain (or loss) with respect to this investment.
- Northstar's common shares were listed for trading on The Toronto Stock Exchange on May 14, 1980, an important factor in the development of the Company's exposure to the national and international investment community. During



the year our outstanding common shares increased to 5,126,445 following the issuance of 476,981 shares for \$2,362,131.

- The Northstar Resources 80-81 public drilling program was the largest exploration joint venture in the Company's history, having raised approximately \$11.4 million. This venture now is expanding a significant share of its total budget in the United States, the first public Canadian limited partnership to do so. The limited partners have been issued 456,440 warrants which are exercisable through June 3, 1981, at \$7.70 per share.

## Allegro Acquisition

Northstar's major corporate objective in 1980 was to establish a strong exploration organization in the United States. That objective could not have been more effectively accomplished than it was through the acquisition of Allegro Petroleum Inc., a private Houston based oil and gas exploration company. Subsequent to our year-end, the merger was completed between Allegro and Northstar Resources, Inc., a wholly-owned Texas subsidiary of the Company. This \$8 million transaction involved the issuance of 999,991 treasury shares of Northstar to the shareholders of Allegro.

The majority of the oil and gas assets acquired from Allegro are in Burleson County, Texas, along the Austin Chalk oil trend where Northstar now has an interest in over 8,000 gross acres including 34 producing wells. Cash flow from the acquired properties is forecast to be approximately \$1,200,000 in 1981.

The senior management of Allegro will remain with the Company as officers of the new subsidiary based in Houston, Texas. Donald K. Lehto, a Professional Geologist, has been appointed President of Northstar Resources, Inc., and, in addition, it is a pleasure to announce his appointment to the Board of Directors of Northstar Resources Ltd. John C. Zura and Jack Gourley, Jr. have been appointed Vice-Presidents of Exploration and Land, respectively, of Northstar Resources, Inc.

## S & T Drilling Acquisition

Another post year-end development of extraordinary significance to the Company was the acquisition of a controlling interest in S & T Drilling (Northern) Ltd., a private Edmonton based oilwell drilling contractor. S & T currently owns and operates, in Canada, a first class fleet of 11 drilling rigs with intermediate depth ranges of 8-12,000 feet. Because of the negative current outlook for the drilling industry in Canada, the Company is evaluating various alternatives to employ several of the S & T rigs elsewhere. The intention is to move two of the rigs to Australia and four to the United States. In addition, three new rigs will be delivered, tentatively to the Canadian operation, prior to the end of 1981.

## Dorset Joint Venture

Northstar has been involved in the start-up, and is presently the sole shareholder, of Dorset Resources Ltd. Dorset intends to raise between \$10 and \$20 million from a common share issue

expected to be sold, principally, in Canada and the United Kingdom. Dorset has entered into an agreement with Northstar whereby most of the proceeds of the issue will be committed to a joint venture exploration program to be undertaken by Northstar in the United States. Following Dorset's share issue, Northstar will own 5% of the Dorset shares and have an option to increase its holdings to 10% prior to June 30, 1983.

### Corporate Reorganization

The Allegro and S & T acquisitions have led to the recent reorganization of Northstar in order to more efficiently manage the growing asset base now under our ownership. Each of our operating divisions, that is the United States Oil and Gas Division, the Canadian Oil and Gas Division, and the Contract Drilling Division, will henceforth operate their business in, substantially, an autonomous manner. The establishment and review of corporate goals and matters related to financial planning and controls will be determined in cooperation between senior management of each division and a newly established Corporate Group in the Company's head office. The Corporate Group consists of the senior officers of the firm as well as other financial and support staff.

We are particularly pleased to announce the appointments of Barry P. Dorin as Vice-President and Manager, Canadian Oil and Gas Division, and David G. Scobie as Treasurer of Northstar Resources Ltd. Both men bring many years of petroleum industry experience to our firm.

The Board of Directors of the Company believes that our major strength lies in our outstanding management organization. We have provided a detailed summary of the management of the Company in the appropriate sections of this report.

### Exploration and Operations

During the past two years the economic benefits of exploring for oil and gas in the United States have become increasingly apparent. Last year Northstar undertook to shift the emphasis of its exploration efforts from Canada to the United States. This new exploration strategy will take on a greatly increased significance in 1981.

- In the United States, the Company participated in 10 wells of which six were oil wells and two were gas wells. Of particular significance, was the Oro Negro prospect along the Austin Chalk trend in Wilson and Karnes Counties, Texas. Northstar is presently involved in a 15-well exploratory program on over 32,000 acres. Five wells were drilled prior to year-end and initial rates of production have varied from 85 to 275 barrels per day per well. The balance of the exploration activity in 1980 was concentrated along the Texas-Louisiana Gulf Coast.



- In Canada, Northstar participated in 52 wells, in 1980, of which ten were oil wells and 15 gas wells. This program was of significantly higher risk than in previous years as the Company concentrated on prospects of greater reserve potential and involving larger blocks of land.
- The Company commenced a multi-well farm-in commitment in the Berland West area of Alberta, involving over 85,000 gross acres. Four wells of an initial nine well exploratory program were drilled prior to year-end, three of which have been cased for further evaluation. In the North Peace River area, Northstar operated four exploratory wells in its Lathrop, Worsley, Derek and Derek West prospects, casing two and abandoning two wells. Available Crown land and multi-zone oil and gas potential make this an attractive area for future development.
- Several wells commenced production during the year. At Birch in Central Alberta, Northstar has a 50% working interest, converting to 25% after payout, in a well now producing its contract limit of 1.0 MMcf per day. Recoverable reserves are estimated in excess of 10 Bcf. The Company's major producing property at Long Coulee continues to produce satisfactorily, and an additional well was drilled on the prospect with reserves estimated at 6 Bcf. In the Willesden Green area of Central Alberta, Northstar participated in three oil wells which have been producing approximately 175 barrels per day in total.

On the Blueberry prospect in northeastern British Columbia, five wells which were shut-in for over one year due to faulty production facilities have now recommenced production and are expected to maintain cumulative production rates of 3.5 MMcf of gas and 300 barrels of oil per day.

## Outlook for 1981

### United States

In the United States, opportunities for growth are almost unlimited in both the exploration and service sectors of the industry. World prices for oil, and de-control with respect to natural gas prices by 1985, will continue to provide sufficient price incentives to encourage exploration and production. The U.S. political environment is extremely stable and it appears that the present administration has a realistic appreciation of the need to reduce dependence on uncertain sources of foreign oil.

### Canada

The future of the petroleum and natural gas industry in Canada is extremely uncertain at the present time as a result of the National Energy Program (NEP) and the continuing confrontation between the federal and provincial governments. The overall thrust of the NEP is very disturbing in its overriding assumption that it is the government's role to assume direct control over the development of petroleum resources, and by whatever means that it feels are justified.

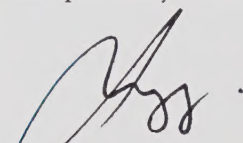
Notwithstanding the current unsatisfactory political environment in Canada, the major difficulty currently facing the industry is caused by inadequate petroleum prices and the lack of natural gas markets. Quite simply, many of the exploration opportunities are uneconomic, and will not be drilled under present circumstances. The result, for Canada, will be an increased dependence on imported oil and a continuation of the exodus of money, equipment, and talented people from the country.

### Corporate Goals for 1981

- To undertake a major equity issue in order to strengthen the Company's balance sheet and enable the management to react quickly to acquisition and investment opportunities.
- To expand the Company's exploration activities in the United States to the limit of our management and technical capabilities.
- To be aware of potential opportunities in Canada for the acquisition of oil and gas assets which can be economically developed under the provisions of the National Energy Program.
- To remain selective in pursuing Canadian exploration prospects, concentrating on only high quality situations with significant reserve potential.
- To expand the operations of the Contract Drilling Division into the United States and Australia in order to offset the significant downturn in drilling activity expected in Canada for 1981 and beyond.

Northstar is well positioned to continue the impressive growth record established during the Company's brief three year history. Certainly, opportunities in Canada will be limited in the immediate future. However, the recent acquisitions of S & T Drilling and Allegro Petroleum have provided the basis for a major thrust into the United States and Australia. We anticipate a rewarding year for Northstar in 1981.

Respectfully submitted,



John A. Hagg  
President

Calgary, Alberta  
March 16, 1981



Northstar's Corporate Group, which includes the senior officers of the firm has overall responsibility for managing the Company and establishing its corporate objectives. With the recent acquisitions of S & T Drilling (Northern) Ltd. and Allegro Petroleum Inc., the corporate planning and administrative workload have increased substantially. In addition, management problems respecting the financial planning and control of the Company have become more complex. In summary, there are a multitude of administrative, operational, and financial inter-relationships between the operating divisions of the firm, all of which are the responsibility of the Corporate Group, working in cooperation with the management of each division.

## Management

The Company's three co-founders, who are presently its senior officers, head the Corporate Group's decision making team, which includes other senior management and support staff.

JOHN A. HAGG, President, received his M.B.A. degree from Stanford University. He was instrumental in the formation of Northstar and has been President since the Company's inception. Previously, he was a senior officer of an Alberta company with investments in the petroleum and real estate industries.

MICHAEL M. KANOVSKY, Executive Vice-President, is a Professional Engineer and holds an M.B.A. degree from Western. He concentrates on raising capital for the Company and has overall responsibility for the evaluation of acquisition and investment opportunities.

RICHARD W. SWITZER, Senior Vice-President, Oil and Gas Operations, is a Professional Geologist and a graduate of Penn State. He has extensive experience as an exploration geologist in the United States and Canada and has overall responsibility for the Company's oil and gas activities world-wide.

DAVID G. SCOBIE, Treasurer, is a Chartered Accountant, formerly associated with Peat, Marwick, Mitchell & Co. He has extensive experience in oil and gas taxation and has direct financial responsibility for each of the Company's operating divisions.

## Investments

The Company's primary objective has been to develop its asset base as an operating company. Occasional investment opportunities are presented to the Company which may be investment oriented, and in addition, are complementary to the business of the Company's operating divisions. The Corporate Group, in consultation with the Company's Board of Directors, is responsible for such equity investments in other petroleum industry related companies.

# CORPORATE GROUP

### Corporate Organization





## Gane Petroleum

Northstar has played a significant role in the formation and early development of Gane Petroleum Corporation Ltd., a Calgary based oil and gas exploration company, with its shares publicly traded on The Alberta Stock Exchange. With 800,000 Gane shares, Northstar is the largest common shareholder, owning 21% of the issued common shares that have a current market value of approximately \$2.8 million.

Gane employs a particularly strong technical organization, in Canada, consisting of five exploration geologists. In general, there has been a concentration on large regional prospects of a higher risk nature which, if successful, would have a significant impact on Gane's asset growth. Gane expects to concentrate about one-third of its exploration activity in the United States, in 1981, and is presently establishing a division exploration office in Tulsa, Oklahoma. Though working entirely independently, Northstar and Gane cooperate in the development of geological prospects in situations where our respective businesses and abilities are complementary to one another.

For the year-ended December 31, 1980, Gane earned net income, after tax, of \$148,000 (6¢ per share). There was a strong working capital position of over \$3 million at year-end. The Company participated in the drilling of 30 wells during the period, of which 23 were cased as oil or gas wells, and financing has been arranged to ensure its aggressive exploration program will continue. Northstar believes its investment in this well managed company has a great deal of upside potential. Michael Kanovsky, Executive Vice-President of Northstar, is a member of Gane's Board of Directors.

## Dorset Resources

Late in 1980, Northstar became involved in the start-up of a new oil and gas exploration company, Dorset Resources Ltd. Dorset is currently in the process of raising between \$10 and \$20 million through a common share issue to be undertaken principally in Canada and the United Kingdom. Most of the funds raised will be committed to Northstar under a joint venture agreement to be expended primarily in the United States.

Northstar has undertaken to subscribe for 5% of the initial share offering and, in turn, will receive an option to increase its holdings to 10% of Dorset's outstanding shares, exercisable at any time prior to June 30, 1983.

During the initial phase of Dorset's operations, management services will be provided by Northstar to administer all of Dorset's business affairs. It is the intention of the Board of Directors of Dorset to eventually employ an independent Chief Executive Officer with the objective of developing Dorset into an independent oil and gas exploration company employing its own technical personnel.



# CONTRACT DRILLING DIVISION

Northstar has evaluated a number of acquisition or investment opportunities within the contract drilling and service sectors of the petroleum industry with a view toward diversifying the operating base of the Company. With the acquisition of a 65% controlling interest in S & T Drilling (Northern) Ltd., Northstar has acquired a well managed and long established drilling contractor which has carried on business in western Canada since 1952.

## Operations

Over the last five years S & T has grown steadily, increasing its rig fleet from five to the current 11 drilling rigs as well as operating an additional rig under a management contract. Most of these rigs have depth capacities in the 8,000 to 12,000 foot range and would generally be regarded as excellent equipment within the drilling industry. In addition, the Company owns and operates a modern fully equipped service yard at Nisku, near Edmonton, Alberta. This 20-acre site has complete fabrication, servicing and warehouse areas.

S & T, in addition to its present rigs, has three new rigs on order from National Supply which are scheduled for delivery late in 1981. The Company also has the first right to purchase the rig it operates on contract. Independent appraisers have valued S & T's current equipment and inventory in excess of \$40 million.

## Management

S & T Drilling has built up a strong management and operating staff during its years of operations which currently totals approximately 275 employees. This group of highly experienced operating personnel have remained with the Company since the acquisition by Northstar and are a major asset of S & T. In addition, diversified international drilling expertise has been acquired by S & T through the new association with Platypus Oilfields Services of London, England who are minority shareholders in the Company. The management of Platypus have extensive international operating experience and will play a significant role in the expansion of S & T into the United States and Australia.

The day to day management of S & T is under the direction of these senior officers:

JAMES W. DAVIDSON, President. Mr. Davidson was formerly the major shareholder of S & T Drilling, and has retained an equity position in the reorganized company. He has 35 years of varied experience in the contract drilling industry in western Canada, and has been with S & T for 15 years.



R. WILLIAM PARSONS, Vice-President and General Manager. Prior to joining S & T Drilling, Mr. Parsons was Executive Vice-President and United Kingdom Manager for Platypus. He has ten years experience in various drilling management positions in Europe and the Middle East and prior to 1967, had 14 years experience with various drilling contractors in Canada.

ROBERT DAVIDSON, Vice-President, Operations. Mr. Davidson has been an officer and director of S & T Drilling since 1975. Previously, he was employed by Regent Drilling for 29 years, most recently as Vice-President and Manager, Operations.

## Outlook for 1981

S & T had gross revenues in excess of \$25 million during its last fiscal year and recorded substantial profits prior to Northstar's involvement. With the present uncertain political and economic climate in Canada total projected Canadian drilling activity is expected to decline sharply. S & T will be adversely affected as will all Canadian contractors, however, the Company is confident that all of its rigs can be fully utilized in the United States, if not in Canada.

S & T is currently in the process of establishing drilling subsidiaries in both the United States and Australia to take advantage of opportunities in those countries. Numerous inquiries regarding contracts have already been received from both international and United States operators. With the excellent equipment maintained by the Company, business opportunities in such markets may be quickly and aggressively pursued. S & T's objectives will remain the maximization of rig utilization by the Company consistent with providing for long-range stability in the Company's drilling markets.

The acquisition of S & T has diversified Northstar's asset base in a very significant way and is expected to provide substantial future benefits to the Company.



## Overview

Northstar expanded its involvement in the United States' oil and gas industry in 1980, with the shift of a larger portion of its exploration budget. This move was prompted by the opportunities available for immediate cash flow and much higher prices for oil and gas than in Canada.

Subsequent to the year-ended 1980, Northstar merged its wholly-owned subsidiary, Northstar Resources, Inc. with Allegro Petroleum Inc. of Houston, Texas. As a result, Northstar has established a strong exploration organization in the United States. With this increased exploration capability, the Company intends to pursue new geological basins and projects of a higher risk nature which may ultimately add substantial reserves to its asset base.

## Management

Northstar's head office is located in Houston and its exploration activities are directed by the previous management of Allegro, now as officers of Northstar Resources, Inc.

**DONALD K. LEHTO**, President, has overall responsibility for the management of Northstar's U.S. oil and gas operations. He has 13 years of varied oil industry experience, having worked as an exploration geologist in both Houston and New Orleans.

**JOHN C. ZURA**, Vice-President, Exploration, has direct responsibility for the U.S. exploration program, which includes developing geological prospects, screening submittals, and directing the exploration staff. He has 14 years experience working primarily in the Gulf Coast.

**JACK GOURLEY, JR.**, Vice-President, Land, has direct responsibility for all phases of land management in Northstar's U.S. exploration program. He has in excess of 11 years of land experience since graduating from the University of Texas School of Petroleum Land Management.

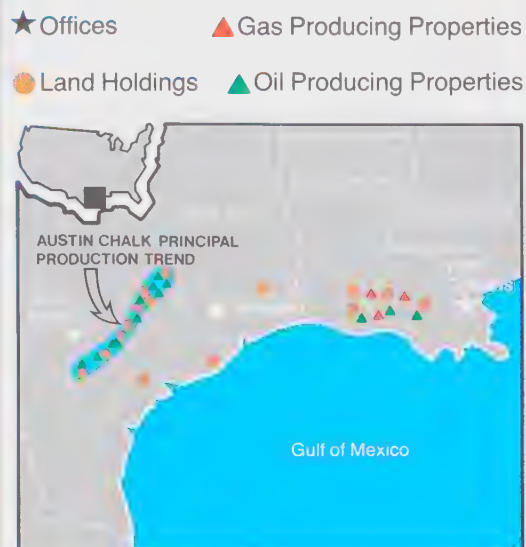
**MITCHELL VEH, JR.**, Manager, Engineering, is a Professional Engineer responsible for the direct supervision of Northstar's U.S. drilling and production operations. Prior to joining Northstar, he worked for C & K Petroleum, Inc., Mesa Petroleum Inc., and Texaco Inc., during his nine year career.

In addition to the exploration staff employed in its Houston head office, Northstar develops prospects through consulting arrangements with 12 independent exploration geologists located in Lexington, Kentucky; New Orleans, Louisiana; Houston, Texas; and St. Helena, California. This association allows Northstar's exploration activities in each area to be managed and developed by professional geologists with extensive knowledge and experience for the region.

## OIL AND GAS DIVISION

## UNITED STATES

**Gulf Coast - Texas and Louisiana**  
(as of March 1, 1981)





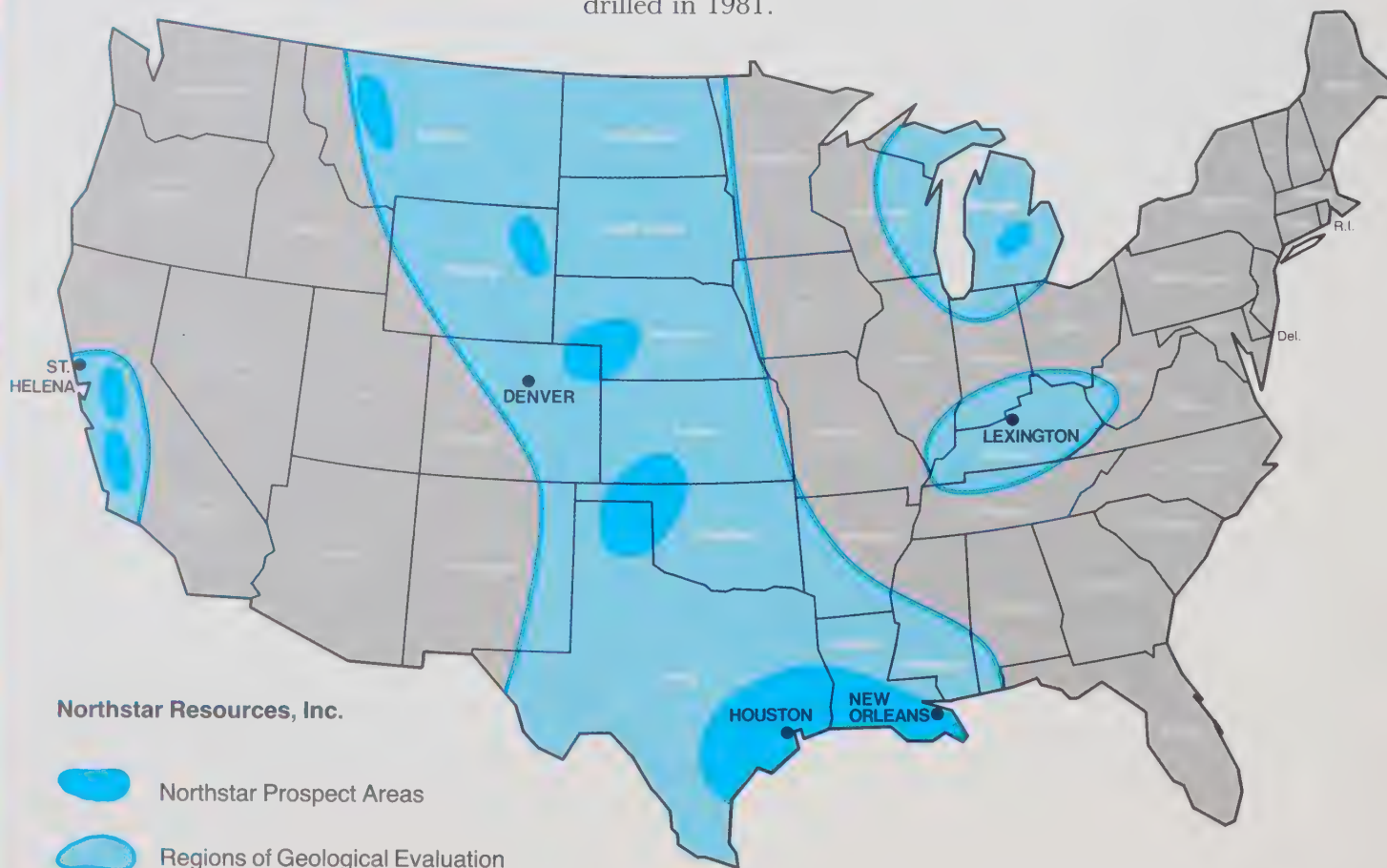
## Exploration Outlook 1981

Northstar's exploration philosophy in the United States is to develop prospects in the established geological basins. Generally, these areas are in a mature stage of development, but have significant remaining oil and gas reserves available at reasonable depths. Most of the prospects have multi zone potential and good market accessibility affording a reasonable expectation for early cashflow from production.

Drilling activity in 1981 is expected to reach the 60 to 80 well level over a diversified risk program, compared to 10 wells drilled by Northstar in 1980. Also, emphasis is to be placed on leasing trends for further development.

### Gulf Coast—Texas and Louisiana

To date Northstar's drilling activity along the Gulf Coast has been concentrated in South Louisiana and the Austin Chalk trend in Central Texas. Northstar has extensive experience in South Louisiana, where multiple horizons exist with both oil and gas potential. These prospects have an excellent possibility of a reasonable return on investment. Northstar is currently leasing on numerous projects including a gas prospect at Bayou Boullion offsetting a 1980 discovery by another operator. This prospect, which is typical of South Louisiana prospects, has 30 Bcf of gas potential above 10,000 feet. This prospect is scheduled to be drilled in 1981.





## Austin Chalk

The Austin Chalk trend of Central Texas has been the subject of intensive exploration and development since 1977. Both Northstar and Allegro, prior to the merger, have been very active in exploring along this trend. The Company's total land holdings are in excess of 42,000 acres in seven different counties.

Northstar plans to complete a 15 well exploration program started in 1980 in Wilson and Karnes Counties. Results to date have been very encouraging and a development drilling program is also scheduled for 1981. In addition, the Company plans to drill 20 wells to further develop its acreage in Burleson County where 31 wells are now on production.

## California

Northstar Resources, Inc. is involved in two areas of Central California. The projects are administered from Houston, Texas with technical personnel located in California and Washington, D.C.

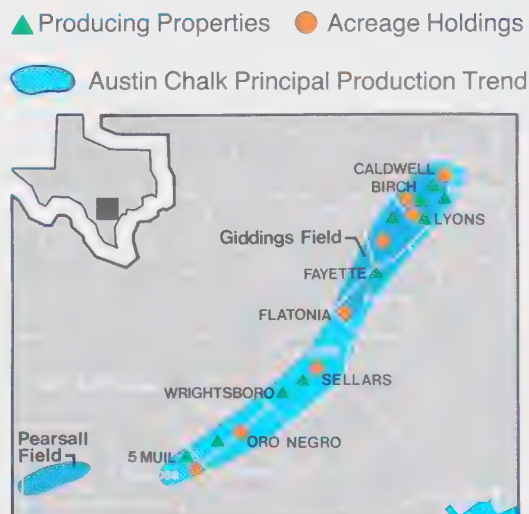
The Company will participate in a drilling program in the Sacramento Valley during 1981 where modern seismic data has been integrated with geological concepts to select drilling locations with potential gas accumulations. Three of these prospects will be drilled during the first half of 1981; Sand Hill, Bixler and Merritt. All of the projects are prospective for gas deposits above 8,000 feet. The Company expects to continue to explore and develop additional prospects in the Sacramento Valley in the second half of 1981. Northstar is one of the few independents actively involved in the Sacramento Valley where drilling cost versus economic potential is extremely favourable.

Northstar is also involved in California in a technologically sophisticated project which is prospective for heavy oil accumulation. Complex geology has made conventional exploration methods unusable and, as a result, the Company is using "State of the Art" techniques to provide a basis for seismic and lease programs. The Company is currently leasing on several leads and it is anticipated that a drilling program will commence in the second half of 1981.

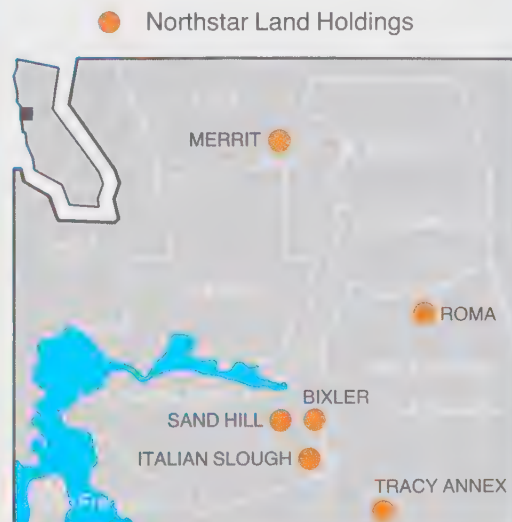
## Michigan Basin

Northstar is actively purchasing leases in the Michigan Basin where substantial oil potential exists at reasonable drilling depths. The exploration program is being conducted using a group of technologists with extensive expertise in the Basin. The Michigan Basin exploration program is in its early stages of development and seismic surveys and additional Basin evaluation will take place during the first half of 1981 with exploratory drilling to begin in late 1981.

### Austin Chalk, Texas



### Sacramento Valley Project, California





# OIL AND GAS DIVISION CANADA

## Overview

Northstar's Canadian exploration activities did not continue at the same rate of growth exhibited in prior years. The current political and economic environment in Canada was the prime reason for the levelling off of activity, particularly during the latter part of the year. During 1980, the Company participated in 23 exploratory wells in Canada, an increase of only 21% over that of 1979.

Since the latter part of 1980, Northstar has endeavoured to become more selective in prospect generation and participation concentrating its efforts on larger regional prospects. There will be a greater inherent risk than with a fully diversified exploration program but management feels that the increased potential to add asset value to the Company more than offsets the risk.

## Management

The Canadian Oil and Gas Division has the technical and managerial expertise in place to successfully initiate and supervise the development of regional prospects. The head office in Calgary, Alberta is staffed by three geologists, two engineers, and a landman.

BARRY P. DORIN, Vice-President and Division Manager, is a Professional Engineer and has direct responsibility for Northstar's oil and gas operations in Canada. He has in excess of 13 years of production and reservoir engineering experience in the Canadian oil industry. Prior to joining Northstar, he was Manager of Engineering for Canadian Reserve Oil and Gas Ltd.

DENNIS G. STEWART, Division Manager, Exploration, is a Professional Geologist and has overall responsibility for the Canadian exploration program. He has in excess of 12 years of geological experience in western Canada and was a District Manager with Sulpetro Limited before joining Northstar in 1978.

PHILLIP A. JOHNSON, District Manager, Exploration, is a Professional Geologist with 13 years of varied geological experience in Canada and the Rocky Mountain States. He was with Alminex Limited before joining Northstar in 1978.

ROGER H. BAINES, District Manager, Exploration, has in excess of 15 years geological experience in western Canada. Prior to joining Northstar in 1980, he was Senior Geologist with Andex Oil Co. Ltd.

JAMES A. CARRIERE, Manager, Land, has had extensive land experience over the last 15 years. He was an independent land consultant prior to joining Northstar in 1978, and previously was District Landman (Canada) for Skelly Oil.

These five individuals are the nucleus of a strong exploration team for Northstar's Canadian Oil and Gas Division.



## Political and Economic Concerns

The lack of new gas markets has continued to inhibit Northstar's exploration and development opportunities in Canada. The majority of the Company's gas reserves remain shut-in awaiting new markets. This lack of gas marketing, coupled with the National Energy Program (NEP) and the October, 1980 federal budget have all combined to limit economic opportunities in the oil and gas exploration and development business in Canada. With some of the unknowns today regarding the future economics of drilling in Canada, Northstar plans to continue its activities on a reduced expenditure level from that of 1980.

Northstar has the technical expertise in place in Canada and the ownership qualifications necessary to explore within the NEP to maximize the rebates available from the federal government, and at the same time add asset value.

The Company will not ignore the opportunities available to utilize Federal Grants by exploring Canada Lands. On a continuing basis, Canada Lands will be evaluated for oil and gas potential but Northstar feels that as a junior oil and gas exploration company, we must confine these endeavours to on-shore Canada Lands where exploration costs are within the scope of the Company's financial capabilities.

## Exploration Outlook

Northstar intends to shift its emphasis from the diversified exploration program of the past to a program of regional prospects based upon selected concepts. The potential growth of the Company's asset base from these types of prospects will complement efforts in the United States where immediate opportunities for cash flow are available.

The pace at which Northstar pursues the evaluation of its conceptual regional prospects will be dictated by the political and economic conditions of Canada as well as the attitude of the Canadian oil and gas industry as a whole. The exploration and ultimate development of such prospects are long-term enough in nature, that hopefully, the current problems regarding government, marketing, pricing, etc., will be rectified by the time such properties are ready to come on stream.

The shift in exploration emphasis began in 1980 and resulted in Northstar's activity at Berland River West, North Peace River Arch and Marten Hills West and North. Northstar, at this early date has already made significant commitments in additional regional type prospects for 1981. The Devonian Play of Northern Alberta is an excellent example of Northstar's ability to remain ahead or abreast of the rest of the industry in a large regional play.



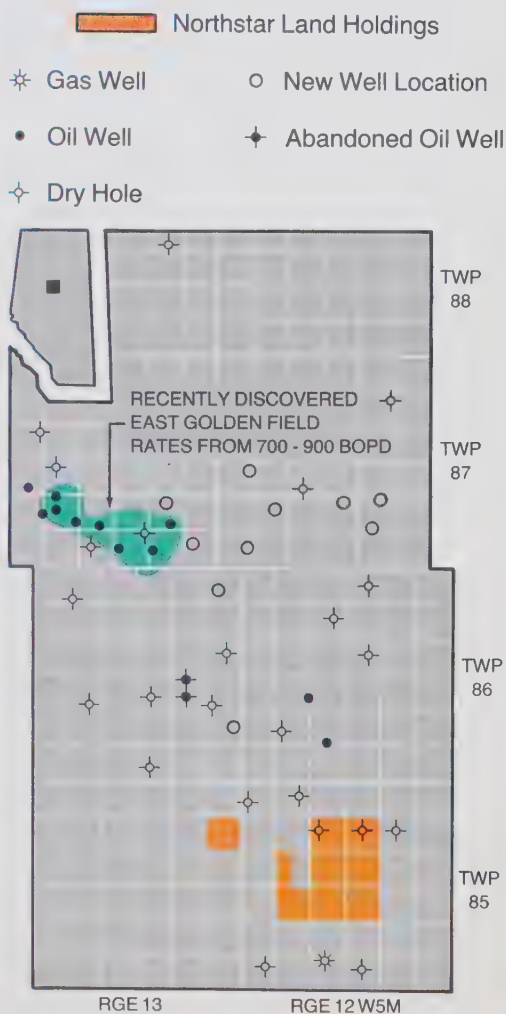
## Devonian Play/Northern Alberta

In 1981, the Company anticipates considerable activity in the Devonian oil play of northwestern Alberta. This has been a very active play from the standpoint of land sales in recent months, with the target of most companies being the Devonian aged Slave Point, Keg River and Gilwood Formations as well as the Granite Wash. Northstar has acquired land and/or made drilling commitments at Hay River, Naylor West, Lubicon Lake, Salt and Little Cadotte, a prospect within an area of mutual interest with industry partners covering over 3,000 square miles called Golden Ochre.

### Lubicon Lake

The Lubicon Lake block, located immediately adjacent to the Golden Ochre region, has become a very active region. Many seismic crews have been active in the area; there have been numerous land sale parcels; and prices have escalated since Northstar acquired its acreage. Drilling locations announced to date are largely to the north of the Northstar land, but based upon recent land sale results, could shift to the south in 1981. Northstar and partners anticipate drilling a well on this block in 1981. Due to the nature of the terrain in this region, drilling and geophysical activity is restricted to winter operations.

#### Lubicon Lake, Alberta





The majority of Northstar's operations activity during 1980 was in Canada. However, it is anticipated that the combination of Northstar's on-going U.S. drilling program and the proposed activity, subsequent to the Allegro merger, will effectively result in an overall shift in operations activity to the United States during 1981. *The following review of the operations is applicable to year-end November 30, 1980, and does not reflect any of Allegro's drilling activities or oil and gas properties.*

## Drilling

In 1980, Northstar participated in the drilling of 62 wells, an increase of 55% from 1979. Thirty-three of these wells were indicated oil or gas discoveries and cased for further evaluation and completion. The average footage per gross well increased from 4955 feet to 5913 feet. This increase reflects Northstar's participation in deeper, riskier plays in Alberta and the Texas Gulf Coast.

## Land

As of November 30, 1980, Northstar owned a working interest in the petroleum and natural gas rights in 382,223 gross acres in Canada and the United States. This compares to the previous year-end, when the Company owned an interest in 239,949 gross acres. The additional land was acquired both through lease purchases and farm-ins. The Company's undeveloped land holdings were appraised by an independent mineral management consultant at a replacement value of \$5,812,514 as of year-end.

## Reserves

The Company's share of proven plus probable crude oil and liquids and natural gas reserves at November 30, 1980 were 535,732 barrels and 32,644 MMcf respectively. These reserves were determined by an independent petroleum engineering consulting firm and are expressed as the Company's working interest reserves before the deduction of any royalties. These reserve numbers do not include an evaluation of certain wells in the Berland River West prospect where information is being held confidential.

# OPERATIONS REVIEW

### Drilling Activity

	1980	1979
Canada		
Oil	10	3
Gas	15	21
Dry and Abandoned	27	14
United States		
Oil	6	0
Gas	2	0
Dry and Abandoned	2	2
Total Wells	<u>62</u>	<u>40</u>

### Land Holdings

(at November 30, 1980)

	Canada	U.S.A.	Total
Gross (1)	346,201	36,022	382,223
Net (2)	80,205	5,669	85,874

(1) Total number of acres in which Northstar has an interest.

(2) Northstar's interest in the gross acres for each area, does not include any joint venture interest managed by Northstar.

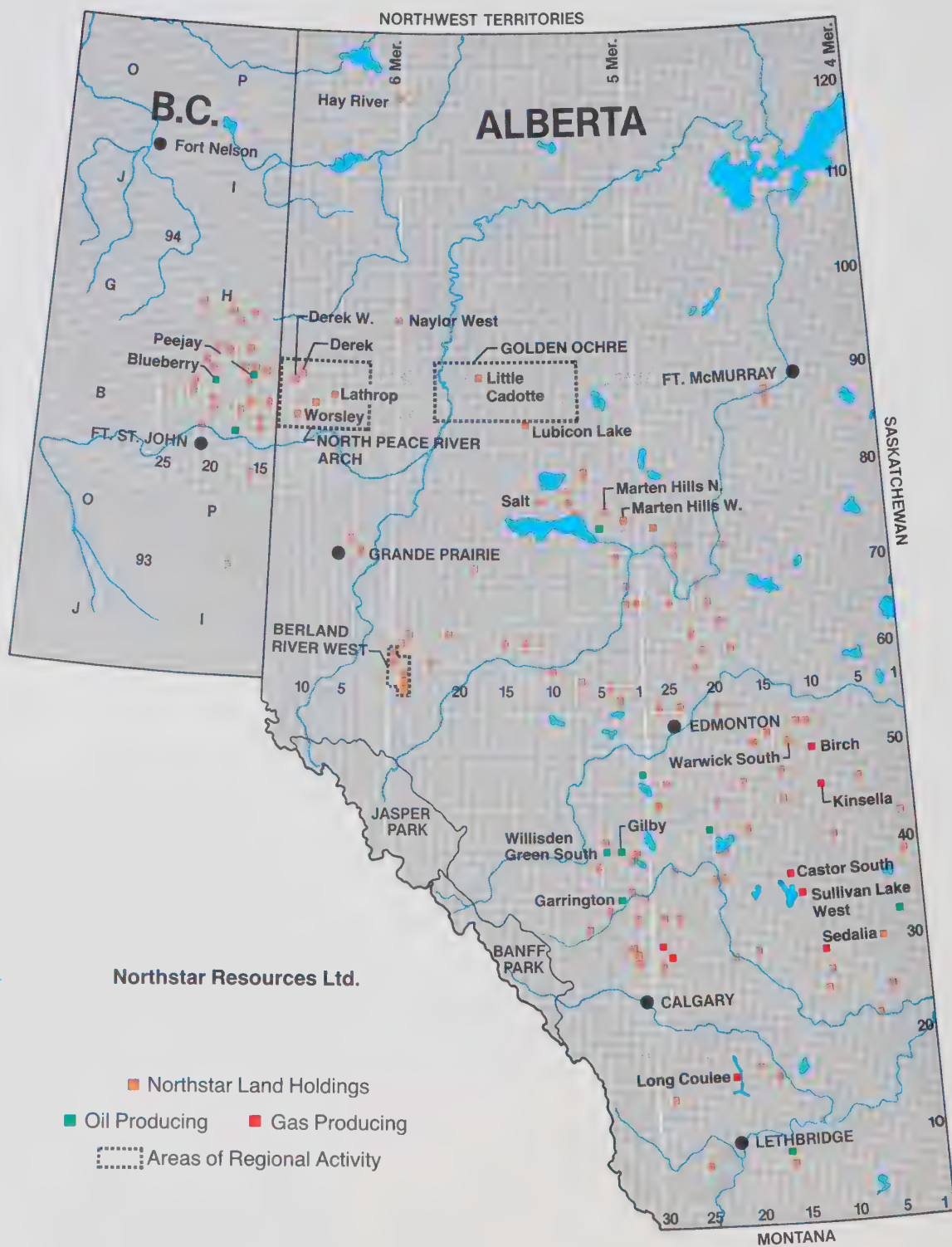
### Reserves

(at November 30, 1980)

(Before Deducting Royalty)

Crude Oil and Liquids (Bbls)	535,732
Natural Gas (MMcf)	32,644







# Exploration

## Canada

During 1980, Northstar participated in 23 exploratory wells in Canada, an increase of 21% over the previous year. The shift in emphasis to the drilling of deeper, riskier, exploratory wells having high reserve potential resulted in a 50% increase in the exploratory footage drilled over that of 1979. Two regions of Alberta where Northstar actively explored and acquired acreage in 1980 were Berland River West in the west-central portion of the province and the North Peace River Arch area of north-western Alberta.

### Berland River West

Northstar is currently participating with industry partners in a multi-well farm-in commitment in this sparsely drilled region of the province. As of November 30, 1980, two exploratory earning wells had been drilled and two additional wells were drilling. The availability of more than 85,000 gross acres, in proximity to and on trend with both the Elmworth-Wapiti gas play and the Kakwa oil play to the northwest, attracted the Company's interest to this area. Results have been encouraging, but of a highly confidential nature. The Company will continue its activities in this region in 1981.

### North Peace River Arch

This region of the province has seen limited activity in recent years but the availability of Crown land combined with multi-zone oil and gas potential made it very attractive to Northstar. In 1980, Northstar operated four test wells, one each at Lathrop, Worsley, Derek and Derek West, casing two and abandoning two. The Derek-Derek West plat highlights the activity level of just a portion of this regional play.







### North Central Alberta

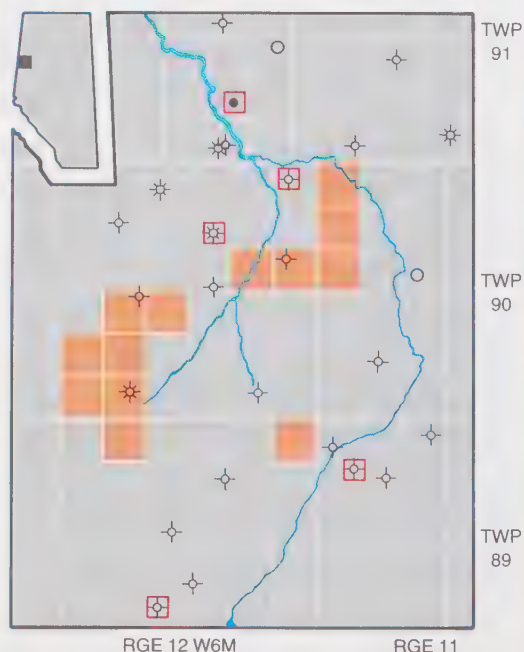
One other area of the province, where Northstar was active on a regional basis, was Marten Hills West and Marten Hills North. Approximately 16,000 acres of land were acquired and a three well exploration program was scheduled for early 1981.

## United States

During 1980, Northstar participated in a significant exploration program on the Oro Negro/Austin Chalk prospect in Wilson and Karnes Counties, Texas. Northstar and partners committed to drill 15 exploratory wells to earn an interest in more than 30,000 acres along the Austin Chalk trend. To date, five wells have been drilled as part of the initial program. Wells are commencing production at rates varying from 85 to 275 barrels per day. It is too early in the production life of the wells to determine what the sustained oil rates will be after the initial decline. However, with the encouragement to date, additional

### Derek and Derek West, Alberta

-  Northstar Land Holdings
-  Gas Well
-  Wells Drilled in 1980
-  Oil Well
-  New Well Location
-  Dry Hole











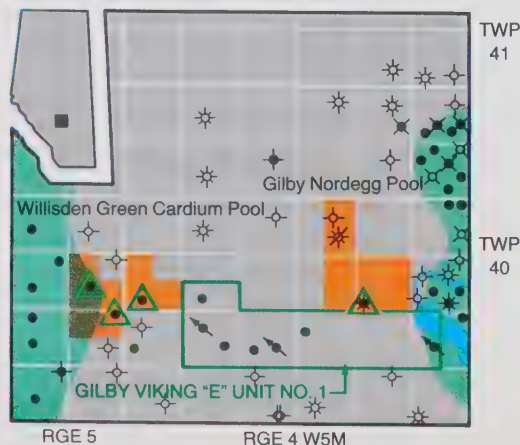


### 1980 Production (Before Deducting Royalty)

	Bbls	Bbls/d
Crude Oil and Liquids	24,644	67
	Mcf	Mcf/d
Natural Gas	485,000	1,329

#### Willisden Green South - Gilby, Alberta

-  Northstar Land Holdings
-  Gas Well
-  Producing Oil Well
-  Oil Well
-  Water Injection Well
-  Dry Hole
-  Abandoned Oil Well
-  Service Well



drilling is scheduled for 1981. It is anticipated that at least 20 wells will be on stream by year-end. Northstar is optimistic for the development of this large acreage block over the next few years as most leases do not reach their primary expiry term until 1984 or 1985. Drilling for Austin Chalk oil production on the Oro Negro project has shown that fracture systems can indeed be located in this area using high resolution seismic data as oil has been discovered in both the Austin Chalk and Buda limestone formations.

## Production

At November 30, 1980, Northstar had an interest in 14 producing oil wells and 11 producing gas wells. During 1980, the Company's working interest crude oil and liquids production, before royalty, increased to 24,644 barrels from 18,930 barrels in 1979. The Company's working interest gas production, before royalty, was 485 MMcf for the year, compared with 381 MMcf during 1979. This increase in production reflects the addition of several properties which Northstar or Northstar's partners placed on stream during 1980. Three of the more significant properties to come on stream last year were Birch and Willesden Green South-Gilby in Alberta and the Oro Negro Austin Chalk production in Texas.

### Birch

Northstar CMS PCP Birch 2-19-50-10 W4M came on stream in May, 1980 at a contract rate of 1 MMcf per day. An independent consulting firm has assigned reserves of 15 Bcf to this well. Northstar owns a 50% working interest in the well reducing to a 25% working interest after 200% payout. Also during 1980, Northstar and partners drilled a gas well in 1-25-50-11 W4M which has been tested and will be tied-in during 1981.

### Willesden Green South-Gilby

Northstar and industry partners drilled four oil wells in this region of Central Alberta with two of the wells being dual zone oil wells. The wells offset a recently formed Viking water flood unit in which Northstar is attempting to participate. The wells are producing a total of 175 barrels of oil per day and Northstar's working interest varies from 12.0% to 16.1%.

### Long Coulee

The Company holds interests varying from 10.57% to 16.66% in 8,000 acres in the Long Coulee area of Southern Alberta. There are four producing gas wells with production being delivered to the Vulcan Gas Plant No. 2 in which Northstar has an interest. As of the end of the year, the gross remaining marketable gas reserves for Northstar and its partners was 44.8 Bcf. The current gross gas contract rate of 11.5 MMcf/d is being delivered from four wells, with a fifth well drilled during 1980 and available to be tied-in to maintain the contract rate.

## Blueberry

The Blueberry property of northeastern British Columbia is scheduled to be placed on stream in February of 1981 after having been shut-in since July, 1979 due to a leakage of sour gas at the battery site. The battery site was in close proximity to Indian Reserve lands and an Indian settlement. To ensure the safety and well-being of the residents of the area, a new battery was constructed at a new site, at considerable cost to Northstar and partners. Northstar holds working interests varying from 6.47% to 8.08% in four oil wells and one gas well on the land, which are expected to maintain cumulative production rates of 3.5 MMcf of gas and 300 barrels of oil per day.

## Other Areas-Canada

Also during 1980, an oil well commenced production at Peejay in northeastern British Columbia. As of the end of the year, plans were under way to bring three additional wells on stream in Alberta. Facilities were being installed at an oil well in Garrington and gas wells at Castor South and Sullivan Lake.

Northstar and industry partners are currently negotiating gas purchase contracts for wells at Birch, Warwick South, Sullivan Lake West and Kinsella which are all expected to commence production in late 1981.

## Austin Chalk-Oro Negro

Prior to the end of November, 1980, Northstar had drilled five oil wells on its Austin Chalk acreage in Wilson and Karnes Counties, Texas. By year-end, two of the wells were on production, averaging 125 Bbls/day per well. An additional 25 wells are scheduled to be drilled on the acreage during 1981. Northstar's interest is 4.6% in this Austin Chalk prospect.

Through Allegro, the Company acquired an interest in 34 Austin Chalk oil wells in Burleson, Lee, Fayette, Gonzales and Atascosa Counties. Additional drilling is also scheduled for these properties in 1981.

## North Texas

During 1980 Northstar participated in the drilling of two additional wells in the North Texas area where a gas well is producing on the Susan prospect, in Hemphill County. A well on the Nellora prospect is scheduled to come on production at a rate of 600 Mcf/d and 15 barrels of condensate per day. Northstar has signed a gas purchase contract to sell the gas at \$3.36 (Cdn.)/Mcf and condensate is currently selling in the area for \$45 (Cdn.)/Bbl. Northstar has a 4.9% working interest in this well. In Gray County, on the Pamela prospect, an oil well has been placed on production and is currently awaiting gas line hook-up in order to market the gas associated with the well. Northstar anticipates development drilling offsetting the Pamela well during 1981.



# FINANCIAL REVIEW

## 1980 Results

Net earnings for 1980 were \$524,510, 138% higher than the \$219,570 earned in 1979. Net earnings per common share amounted to eight cents compared to five cents per share for 1979. The gain was attributable to higher oil and gas revenues and gains realized by the Company's equity investments.

Cash flow from operations in 1980 totalled \$829,243 or 12.5¢ per share versus \$545,237 or 12.4¢ per share in 1979, an increase of 52%. The activities of the Company's Investment Division provided cash flow of \$249,212 during the year.

## Oil and Gas Revenue

Net revenue from oil and gas sales after the deduction of royalties has increased to \$1,116,716 from \$642,184, an increase of 74%. The gain was due to higher prices and greater sales volumes for crude oil and natural gas.

The lack of gas markets continues to limit revenues from the Company's properties. The Company has an interest in 59 shut-in gas wells which are not producing due to lack of markets. Every possible effort is being made to enter into contracts to obtain production from these properties as soon as possible, but positive results will be difficult to achieve without a significant increase in natural gas exports.

## Management Fees

Fees received by Northstar to offset overheads incurred in developing prospects and managing the ongoing operations of public and private partnerships of which Northstar is the general partner totalled \$500,441 in 1980, an increase of 23%. Such fees are based on capital contributions to the partnerships and are charged as the funds are expended.

## Investment Income

The Company presently has investments in publicly listed stock with market values in excess of \$3,000,000. Unrealized profit on such securities is currently in excess of \$2,235,000. Through various investment transactions during 1980 the Company realized a profit of \$249,212.

## Capital Expenditures

During 1980 the Company expended \$8.3 million on the acquisition of property, plant and equipment. Of this total approximately \$700,000 related to United States land acquisition and drilling activities. In Canada, \$2.8 million related to the acquisition of the interests of various Northstar partnerships in exchange for common and preferred shares of the Company. Other Canadian property acquisitions totalled \$1.4 million and the balance remaining of approximately \$3.4 million was spent on Canadian exploration, development, and associated costs.

## Expenses

Production related expenses including depreciation and depletion increased to \$603,981 in 1980 compared to \$406,950 in 1979. This 48% increase was mainly due to increased activity and higher production volumes. The increase in interest expense is primarily a result of bank indebtedness and historically unprecedented interest rates. Such borrowing was incurred to sustain the exploration and development activities of the Company, and the related interest expense is a major component of total 1980 expenses. The Company is presently in the process of a convertible preferred share equity financing which should substantially reduce debt costs in 1981.

## Government Royalties and Taxes

The provision for current and deferred income taxes showed a recovery of \$213,408 in 1980 compared with a recovery of \$48,352 in 1979. The principal reasons for the increased recovery relate to certain non-taxable receipts by the Company during the year. Details of the income tax provision are included in Note 9 to the Consolidated Financial Statements.

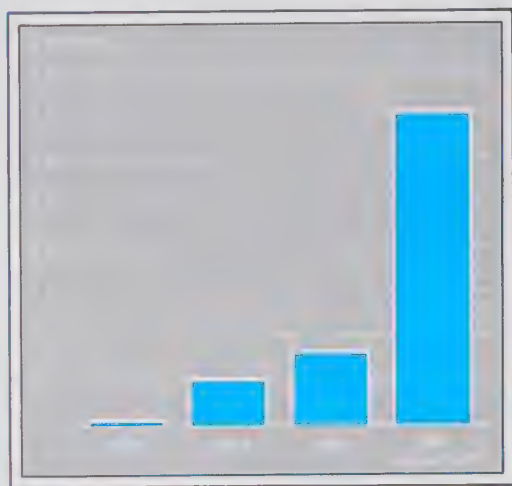
## Share Capital

During 1980 the Company made several important changes in its capital structure. To improve financing flexibility the authorized share capital was increased to 25,000,000 common shares with no limit to the consideration for which additional shares could be issued. In addition, 10,000,000 first preferred shares with a par value of \$10 per share were authorized. The Company is in the process of finalizing a public issue of a portion of the preferred shares.

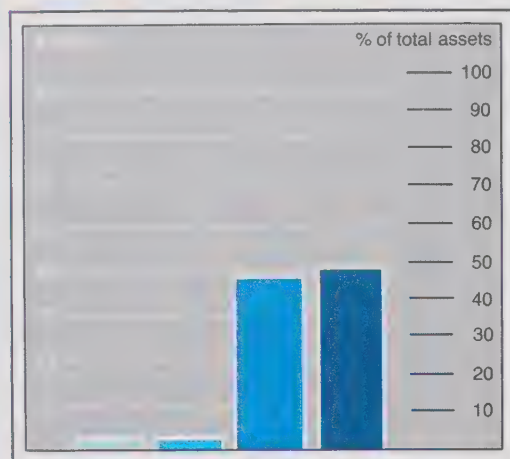
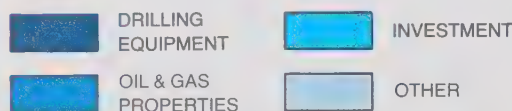
In 1980, 476,981 common shares were issued increasing shareholders equity attributable to such shares by \$2,362,131. In addition, 139,058 first preferred shares were issued in part consideration for various partnership interests.



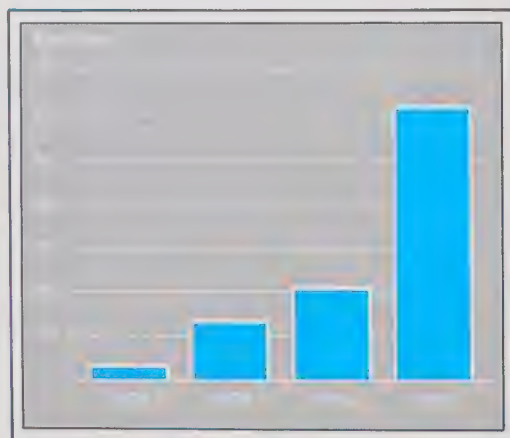
### Cash Flow From Operations (in millions of dollars)



### Assets - at Fair Market Value (in millions of dollars)



### Assets - Book Value (in millions of dollars)



## Outlook for 1981

The Company has entered into several transactions subsequent to November 30, 1980 which change its financial structure substantially. These transactions primarily relate to the acquisition of S & T Drilling (Northern) Ltd. and Allegro Petroleum Inc. The following commentary and displays show the effect of the acquisitions and other transactions on various important financial areas of the Company as well as displaying the historical development of Northstar since inception.

### Total Assets

Total assets of the Company after these acquisitions will be approximately \$61,000,000. When compared to the balance sheet of the Company at November 30, 1978 which showed total assets of approximately \$3,100,000, this total represents an increase of \$57,900,000 in gross assets in a period of less than three years. The accompanying outlines detail the increase in book values over the period, and also show the comparative value of the assets at current fair market values. The estimate of values is supported by independent reports for both the drilling division assets and Canadian oil and gas assets. The investments section is valued at current fair market value as traded on public markets while the value of remaining assets has been estimated internally by the Company.

### Consolidated Cash Flow

The figures for 1978 through 1980 represent actual results for Northstar. The projected totals for 1981 include results for S & T and Allegro. Projections have been based on 1980 operations for S & T adjusted for additional debt financing in that Company. The effect on cash flow of the Company's proposed preferred share issue has also been taken into consideration in projecting expected interest expense.

### Company Personnel

Through the recent acquisitions, the number of employees in the Northstar group has expanded dramatically. Northstar is proud of these employees who number in excess of 320 and provide the leadership and expertise necessary for the efficient functioning of the Company. In 1981 it is projected that direct payroll costs will be in the area of \$8.5 million, mostly being incurred by our Contract Drilling Division.

### Equity Issue

Northstar has filed a preliminary prospectus dated February 17, 1981 for the issue of approximately 1 million cumulative redeemable first preferred shares with a par value of \$10 each. The size of the issue and the coupon rate will be subject to market conditions at the date of issue. The Company will use the proceeds of the issue to reduce corporate borrowings. The additional equity will give the Company the ability to react quickly to acquisition or investment opportunities in the months ahead.

# CONSOLIDATED BALANCE SHEET

at November 30

ASSETS	1980	1979
Current assets:		
Cash .....	\$ 150,852	1,127,905
Accounts receivable .....	1,874,444	1,715,583
Due from limited partnerships (Note 2) .....	624,758	490,512
Prepaid expenses and deposits .....	9,198	17,015
Marketable securities (market value \$110,500) .....	42,900	—
	<u>2,702,152</u>	<u>3,351,015</u>
Investment—at cost (market value \$2,600,000) (Note 3) .....	719,907	—
Property, plant and equipment—at cost (Note 4) .....	17,701,809	9,910,369
Accumulated depreciation and depletion .....	774,873	321,140
	<u>16,926,936</u>	<u>9,589,229</u>
Deferred taxes .....	149,000	—
Due from limited partnerships .....	—	247,000
Other—at cost .....	139,100	20,700
	<u>\$ 20,637,095</u>	<u>13,207,944</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Revolving bank loan (Note 5) .....	\$ 316,500	—
Accounts payable and accrued liabilities .....	3,159,706	2,944,566
Advances from limited partnerships .....	938,754	170,078
Advances from joint venture partners .....	136,656	329,173
Current portion of long term debt .....	446,830	380,330
	<u>4,998,446</u>	<u>3,824,147</u>
Deferred revenue .....	171,321	—
Long term debt (Note 5) .....	5,519,772	3,594,309
Shareholders' equity:		
Share capital (Notes 6 and 7) .....	9,294,759	5,542,048
Retained earnings .....	652,797	247,440
	<u>9,947,556</u>	<u>5,789,488</u>
	<u>\$ 20,637,095</u>	<u>13,207,944</u>

On behalf of the Board:

John A. Hagg, Director

Michael M. Kanovsky, Director

The accompanying notes are an integral part of these financial statements.



# CONSOLIDATED STATEMENT OF EARNINGS

Year ended November 30

	1980	1979
<b>Revenue:</b>		
Oil and gas—net .....	\$ 1,116,716	642,184
Management fees .....	500,441	408,207
Interest and other .....	172,075	161,323
	<u>1,789,232</u>	<u>1,211,714</u>
<b>Expenses:</b>		
Operating .....	150,248	103,282
General and administrative .....	499,161	355,670
Interest: long term debt .....	400,583	277,876
Interest: other .....	223,617	—
Depreciation .....	71,501	44,789
Depletion .....	382,232	258,879
	<u>1,727,342</u>	<u>1,040,496</u>
Earnings before the following .....	61,890	171,218
<b>Investment income:</b>		
Gain on disposal of shares .....	842,719	—
Carrying charges net of dividends .....	593,507	—
	<u>249,212</u>	<u>—</u>
Earnings before income taxes .....	311,102	171,218
<b>Income taxes (Note 9):</b>		
Deferred .....	(149,000)	(10,500)
Alberta royalty tax credit .....	(64,408)	(37,852)
	<u>(213,408)</u>	<u>(48,352)</u>
Net earnings .....	<u>\$ 524,510</u>	<u>219,570</u>
Earnings per common share .....	<u>\$ 0.08</u>	<u>0.05</u>

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended November 30

	1980	1979
Retained earnings, beginning of year .....	\$ 247,440	42,270
Net earnings for the year .....	524,510	219,570
Less preferred share dividends .....	119,153	14,400
Retained earnings, end of year .....	<u>\$ 652,797</u>	<u>247,440</u>

The accompanying notes are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended November 30

	1980	1979
<b>Source of funds:</b>		
Funds from operations .....	\$ 829,243	545,237
Proceeds on issue of long term debt .....	2,310,447	3,594,309
Proceeds on issue of share capital .....	3,752,711	4,941,127
Decrease in other assets .....	3,200	115
Deferred revenue .....	171,321	—
Transfer of resource properties .....	718,157	—
	<u>7,785,079</u>	<u>9,080,788</u>
<b>Application of funds:</b>		
Purchase of property, plant and equipment .....	8,262,597	7,951,869
Due from limited partnerships .....	—	247,000
Increase in other assets .....	121,600	—
Repayment of long term debt .....	384,984	—
Purchase of investment .....	719,907	—
Preferred share dividends .....	119,153	14,400
Conversion of convertible debentures .....	—	855,000
	<u>9,608,241</u>	<u>9,068,269</u>
Increase (decrease) in working capital deficiency .....	1,823,162	(12,519)
Working capital deficiency, beginning of year .....	<u>473,132</u>	<u>485,651</u>
Working capital deficiency, end of year .....	<u>\$ 2,296,294</u>	<u>473,132</u>

The accompanying notes are an integral part of these financial statements.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Northstar Resources Ltd. as at November 30, 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at November 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada  
January 30, 1981

*Peat, Marwick, Mitchell & Co.*

Chartered Accountants



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1980

## 1. Significant accounting policies:

### a) Principles of consolidation:

The consolidated financial statements include the accounts of all subsidiary companies each of which is wholly-owned.

### b) Exploration and development expenditures:

The Company follows the full cost method of accounting for exploration and development expenditures, wherein all costs related to the exploration for and development of oil and gas reserves in North America are capitalized. These costs include leasehold acquisition costs, geological and geophysical expenses, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells, oil and gas field production equipment, gathering lines, compressors and gas plants and interest and overhead expenses related to exploration activities. The costs, together with future capital costs associated with proven reserves are depreciated and depleted on the unit-of-production method, based on estimated proven recoverable reserves as determined by independent engineers. Proceeds on minor property sales are credited to the net book value of property and equipment without recognizing any gain or loss on disposition. Gains or losses on major property sales are recognized in the statement of earnings.

### c) Joint venture accounting:

Substantially all of the Company's exploration and production activities are conducted jointly with others and accordingly the statements reflect only the Company's proportionate interest in such activities.

### d) Depreciation:

Depreciation, on other than production equipment is provided using the declining balance method at the following rates:

Automobiles	30%
Furniture and fixtures	20%
Building	5%

### e) Earnings per share:

Earnings per common share have been calculated using the weighted average number of common shares outstanding during the period.

### f) Deferred revenue:

Payments received for undelivered gas are deferred and are recognized as revenue when deliveries are made or on expiry of the period allowed for such deliveries.

## 2. Due from limited partnerships:

Due from limited partnerships relates to partnerships for which the Company acts as general partner.

## 3. Investment:

Approximately 75% of the Company's investment is held in escrow and therefore cannot be disposed of without regulatory approval. Subsequent to the year end the balance of the holding was pledged as security for a demand loan.

#### 4. Property, plant and equipment:

	1980		1979
	Cost	Accumulated Depreciation and Depletion	Net Book Value
Petroleum and natural gas leases and rights together with exploration and development thereon .....	\$ 17,388,606	688,475	16,700,131
Automobiles .....	83,065	40,981	42,084
Other .....	230,138	45,417	184,721
	<u>\$ 17,701,809</u>	<u>774,873</u>	<u>16,926,936</u>

#### 5. Long term debt:

	1980	1979
Production loan .....	\$ 5,362,116	3,244,319
Secured debenture (U.S. 1980 \$450,000; 1979 \$600,000) .....	536,490	715,320
12% Promissory notes .....	7,500	15,000
9½ % mortgage payable .....	60,496	—
	<u>5,966,602</u>	<u>3,974,639</u>
Less current portion .....	<u>446,830</u>	<u>380,330</u>
	<u>\$ 5,519,772</u>	<u>3,594,309</u>

The production loan bears interest at the Canadian prime rate plus 1¼ % and is secured by production from certain petroleum and natural gas properties. Although the loan is a demand loan, the lender has agreed to accept payment out of future production.

The production loan includes an interim loan of \$2,249,951 which was converted to a production loan subsequent to the year end.

The debenture bears interest at the U.S. prime rate plus 1½ % and is repayable in installments of U.S. \$200,000 and U.S. \$250,000 on January 15, 1981 and 1982 respectively. Security for the debenture is a floating charge on the undertakings, property and assets of the Company both present and future.

The revolving bank loan is secured by general assignment of accounts receivable.

#### 6. Share capital:

##### a) Authorized and issued:

	1980	1979
First preferred shares, par value \$10 per share; authorized 10,000,000 shares issuable in one or more series; issued: nil .....	\$ —	—
Second preferred shares, par value \$10 per share; authorized 500,000 shares issuable in one or more series; issued: 40,000 8% cumulative redeemable series A shares (1979—40,000 shares) ... issued: 139,058 8% cumulative redeemable series B shares (1979—nil) .....	400,000 1,390,580	400,000 —
Common shares, without nominal or par value; authorized 25,000,000 shares; issued: 5,126,445 shares (1979—4,649,464 shares) .....	7,504,179 <u>\$ 9,294,759</u>	5,142,048 <u>5,542,048</u>

During the year the Company increased its authorized share capital to: 25,000,000 common shares and withdrew the limitation on the consideration for which such shares could be issued (1979—9,000,000 common shares to be issued for a maximum consideration of \$10,000,000); 10,000,000 first preferred shares with a par value of \$10 per share (1979—500,000 first preferred shares); and subject to the approval of the second preferred shareholders, 5,000,000 second preferred shares with a par value of \$10 per share.



b) The changes in the share capital of the Company during the year were as follows:

	Number of Shares		Amount	
	Common	Preferred	Common	Preferred
Balance, November 30, 1979 .....	4,649,464	40,000	\$ 5,142,048	400,000
Issued on exercise of share purchase warrants net of expenses .....	238,260	—	856,066	—
Issued in part consideration for the acquisition of Northstar 78-3, 78-4, 78-79 Partnership interests .....	218,721	139,058	1,391,065	1,390,580
Issued for cash .....	20,000	—	115,000	—
Balance November 30, 1980 .....	<u>5,126,445</u>	<u>179,058</u>	<u>\$ 7,504,179</u>	<u>1,790,580</u>

c) Warrants:

During the year warrants to purchase 562,890 common shares of the Company for an aggregate consideration of \$3,980,380, were issued. On June 3, 1980 238,260 warrants were exercised for an aggregate consideration of \$856,066 and 9,450 warrants were cancelled. The 490,440 warrants outstanding at November 30, 1980 expire on June 3, 1981 and are to purchase 490,440 common shares of the Company for an aggregate consideration of \$3,731,338.

### 7. Stock options:

Under an employees' share purchase plan options to acquire up to 37,500 common shares of the Company have been granted to each of six senior employees of the Company. The options are exercisable as to one fifth of the common shares annually on a cumulative basis commencing November 30, 1979. The exercise price per common share is \$1.67, \$2.33, \$2.67, \$3.00 and \$3.33 on November 30, 1979, 1980, 1981, 1982 and 1983 respectively.

At November 30, 1980 share purchase plan options (granted during 1980) to acquire 86,000 common shares of the Company at a price of \$6.00 per share, and 15,000 common shares of the Company at a price of \$6.50 per share, exercisable over a period of three years were outstanding.

Options outstanding at November 30, 1980 total 326,000 shares.

### 8. Remuneration of directors and senior officers:

The aggregate remuneration paid to directors and senior officers of the Company for the year ended November 30, 1980 amounted to \$336,000—7 employees (1979—\$215,000—5 employees). No amount of remuneration was paid to directors as such.



## 9. Income taxes:

The taxes provided differ from the amount that would have been expected if the reported pre-tax earnings were subject to the combined Federal and Provincial tax rates for the periods. The principal reasons for the differences between such "expected" income tax provisions and the amounts actually provided were as follows:

	1980		1979	
	Amount	Percent of Pre-tax Earnings	Amount	Percent of Pre-tax Earnings
Computed "expected" income taxes . . . . .	\$ 151,817	48.8	\$ 80,472	47.0
Increase (decrease) in income taxes resulting from:				
Non-deductibility of royalties and other payments to the Crown . . . . .	121,220	39.0	72,770	42.5
Less related allowances and rebates:				
Federal . . . . .	(124,322)	(40.0)	(72,974)	(42.6)
Provincial . . . . .	(64,408)	(20.7)	(37,852)	(22.1)
	84,307	27.1	42,416	24.8
Non-taxable dividends . . . . .	(169,361)	(54.4)	—	—
Non-deductible depletion . . . . .	70,914	22.8	57,151	33.4
Non-taxable portion of capital gains . . . . .	(198,039)	(63.7)	—	—
Other . . . . .	5,154	1.6	14,876	8.7
Share issue costs deductible for tax . . . . .	(6,383)	(2.0)	(162,795)	(95.1)
	<u>\$ (213,408)</u>	<u>(68.6)</u>	<u>\$ (48,352)</u>	<u>(28.2)</u>

The above tax provisions include a deferred income tax reduction of \$149,000 in 1980 and \$10,500 in 1979. The Company has approximately \$12,000,000 of unapplied exploration and development deductions available for tax purposes at November 30, 1980.

## 10. Subsequent to November 30, 1980 the Company:

- a) and certain third parties acquired all of the shares of S & T Drilling (Northern) Ltd. for a consideration of \$16,500,000. The majority of the purchase price was financed by Canadian bank borrowing secured by the acquired assets. The Company has a 65% interest in the acquired shares. In addition, the Company has guaranteed the banking indebtedness of S & T Drilling (Northern) Ltd. to a maximum of \$2,600,000.
- b) reached an agreement in principle with the shareholders of Allegro Petroleum Inc., pursuant to which Allegro will merge, subject to regulatory approval under the laws of the State of Texas, with the Company's wholly owned subsidiary Northstar Resources Inc.

As consideration for the merger the Company has agreed to issue to the shareholders of Allegro 999,991 common shares of the Company with a value of approximately \$8,000,000.



# CORPORATE INFORMATION

## Northstar Resources Ltd.

2000 Ford Tower  
633-6th Avenue S.W.  
Calgary, Alberta T2P 2Y5  
Telephone (403) 261-4830

### Auditors

Peat, Marwick, Mitchell & Co.  
Calgary, Alberta

### Bankers

Bank of Montreal  
Calgary, Alberta  
Canadian Commercial Bank  
Calgary, Alberta

### Legal Counsel

Bennett Jones  
Calgary, Alberta

### Registrar

The Canada Trust Company  
Calgary, Alberta

### Transfer Agent

The Canada Trust Company  
Calgary, Alberta  
Regina, Saskatchewan  
Toronto, Ontario

### Shares Listed (symbol NOS)

The Toronto Stock Exchange  
The Alberta Stock Exchange

## Directors

John W. Burrows  
President  
Travacon Limited  
Calgary, Alberta  
John A. Hagg  
President  
Northstar Resources Ltd.  
Calgary, Alberta  
F. Warren Hurst  
Vice-Chairman  
F.H. Deacon Hodgson, Inc.  
Toronto, Ontario  
Michael M. Kanovsky  
Executive Vice-President  
Northstar Resources Ltd.  
Calgary, Alberta  
Donald K. Lehto  
President  
Northstar Resources, Inc.  
Houston, Texas  
Richard W. Switzer  
Senior Vice-President  
Northstar Resources Ltd.  
Calgary, Alberta

## Officers

John A. Hagg  
President  
Michael M. Kanovsky  
Executive Vice-President  
Richard W. Switzer  
Senior Vice-President  
Oil and Gas Operations  
Barry P. Dorin  
Vice-President and Manager  
Canadian Oil and Gas Division  
David G. Scobie  
Treasurer  
Bruce R. Libin  
Secretary

## Canadian Oil and Gas Division

Barry P. Dorin  
Vice-President and  
Division Manager  
Dennis G. Stewart  
Division Manager, Exploration  
Roger H. Baines  
District Manager, Exploration  
Phillip A. Johnson  
District Manager, Exploration  
James A. Carriere  
Manager, Land

## Northstar Resources, Inc.

Suite 850  
1010 Lamar Building  
Houston, Texas 77002  
Telephone (713) 654-9238

### Auditors

Peat, Marwick, Mitchell & Co.  
Houston, Texas

### Bankers

Southern National Bank  
Houston, Texas  
Texas Commerce Bank  
Houston, Texas

### Legal Counsel

Schlanger, Cook, Cohen,  
Mill & Grossberg  
Houston, Texas  
Reynolds, Allen, Cook,  
Pannil & Hooper  
Houston, Texas

### Officers and Management

Donald K. Lehto  
President  
John C. Zura  
Vice-President, Exploration  
Jack Gourley, Jr.  
Vice-President, Land  
Mitchell Veh, Jr.  
Manager, Engineering  
Lorraine L. Menough  
Secretary-Treasurer

## S & T Drilling (Northern) Ltd.

P.O. Box 4890  
Edmonton, Alberta T6E 5G7  
Telephone (403) 955-7011  
Telex 037-43235

### Auditors

Peat, Marwick, Mitchell & Co.  
Edmonton, Alberta

### Bankers

Canadian Imperial Bank  
of Commerce  
Edmonton, Alberta

### Legal Counsel

Parlee, Irving, Henning,  
Mustard & Rodney  
Edmonton, Alberta

### Officers and Management

James W. Davidson  
President  
R. William Parsons  
Vice-President and  
General Manager  
Robert G. Davidson  
Vice-President, Operations  
T.J. Price  
Vice-President, Finance  
Gregory Wickens  
Drilling Engineer





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